

JOINT-STOCK COMPANY „SALDUS MEŽRŪPNIECĪBA”

(SINGLE REGISTRATION NUMBER 40003020121)

ANNUAL REPORT FOR THE YEAR 2009

DRAWN-UP IN COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING
STANDARDS

Saldus, 2010

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Information about the Company

Name of the Company	Saldus Timber Wood Industry (Saldus mežrūpniecība)
Legal status of the Company	Joint Stock Company
Registration number, place, and date	40003020124 August 26, 1991, Riga
Address	Kuldīgas iela 86C, Saldus, Saldus rajons, LV 3801
The main areas of activities of the Company	Forestry, commercial timber preparation and related services; production of board lumber, etc.
Members of the Board: name, surname, position	Janis Bertrāns (<i>Jānis Bertrāns</i>) – Chancellor of the Board Janis Mierkalns (<i>Jānis Mierkalns</i>) – member of the Board Gundars Maurs (<i>Gundars Maurs</i>) – member of the Board Gatis Zommers (<i>Gatis Zommers</i>) – member of the Board
Members of the Council: name, surname, position	Uldis Melkalns (<i>Uldis Mierkalns</i>) – Chairman of the Council Lolita Burkovska (<i>Lolita Burkovska</i>) – Deputy Chairman of the Board Janis Leimanis (<i>Jānis Leimanis</i>) – member of the Council Ainis Dabols (<i>Ainis Dābols</i>) – member of the Council
Subsidiary enterprise	
1. Name of the company	<i>Pukuli Sports Premises (Pakuļu sporta bāze) (100%)</i>
Legal status of the company	Limited Liability Company
NUMBER AND DATE OF REGISTRATION IN THE COMMERCIAL REGISTER	48503009010 November 21, 2002
Address	“Mežvidi”, Novadnieku pag. Saldus rajons LV 3801
The main areas of activities of the company	Hunting and related services. Organisation of training and competitive shooting using hunting weapons.
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2009
2. Name of the company	Woodworking Centre No.3 (<i>Деревообрабатывающий комбинат № 3</i>) (<i>100%</i>)
Legal status of the company	Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 1066027046337 October 9, 2006
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Woodworking, production of board lumber
Owner of the company	Saldus Timber Wood Industry(Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2009
3. Name of the company	Saldus (<i>Салдус</i>) (<i>100%</i>)
Legal status of the company	Limited Liability Company
Registration number, date, place	(ООО - Общество с ограниченной ответственностью) 1056000426371 21. December 2005
Address	Russia: 180005, Россия, г. Псков, Зональное шоссе, д. 44-А
The main areas of activities of the company	Purchase of lumber
Owner of the company	Saldus Timber Wood Industry (Saldus mežrūpniecība), JSC – 100%
Reporting year	January 1 – December 31, 2009
Name and address of the Auditor	(Translated from Latvian) Ginta Jaunzeme (<i>Ginta Jaunzeme</i>) Sworn Auditor (Certificate of Latvian Sworn Auditor No.16) License of Commercial Company No.39

Management announcement

To Report of economic activity of Year 2009

Business description in the framework of report period

The core businesses of the commercial company are logging and primary wood processing – lumber production.

In its economic activities, company complies with FSC and environmental protection requirements. For the compliance with these requirements, company takes corresponding monitoring and improvement measures on regular basis, but the share of these costs in production cost is not significant.

From the mid-year of 2009, situation is stabilized in the sector. The demand for sawn timber and assortments of logs has grown in the market.

The profit of JSC „Saldus mežrūpniecība” of Year 2009 from economic activities after tax deductions is 150 665 LVL, whereby Net turnover is 9 174 127 LVL, which comprise profit per emitted share 0,39 LVL.

The financial report is prepared on the base of information that is at share company board's disposal and in compliance with requirements of effective normative acts, it provides true and clear picture on assets, liabilities, financial position and profit or losses of the share company. There is true information included in the announcement.

Important events after the end of year of account

From the end of period of account until the moment of approval of the report, there were no significant events that could make impact on the financial position of the holding that was fixed in the finance report.

Forecasts for financial indicators and plans for economic activities in 2010

Management of the holding continues its work with the internal restructurization of the holding, in order to adapt to the present situation in the market and to improve the economical situation and financial indicators in the company. Management policy is not based on wide profile economic activities, but is focused on the development of economic activities in two interrelated branches on increase of production volumes.

In 2010, it is planned to increase the production and realization volumes in logging by 40 %, i.e. up to 350 000 m³ yearly. It is planned to increase the production and realization volumes for sawn timber up to 150 000 m³ yearly. It is envisaged that profit indicators will remain in the level of 2009.

Business and financial risk management policy

In order to increase competitiveness of the company in this economic situation, the production volumes are being increased by more rational use of company resources, by organization of long-term cooperation with providers of resources and the growing demand in the timber market is taken into account. The increase of production volumes is being based on the existing, already concluded realization agreements and already signed letters of intent.

The interests of the commercial company are the care for social protection and welfare of its employees, because only thus the development of society can be sustainable.

In order to reduce financial risks, commercial company carries out planning of budget and cash flow, where different scenarios for development are foreseen. The management carries out monitoring and control of economical activities and actual finance flow on regular basis in the companies of the holding. Credit institutions that carry out assessing of financial risks of the holding on regular basis, when they are determining credit rating of the holding, can be regarded as additional guarantors of the assessing of risks.

February 26, 2010.

Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Statement about the responsibility of management

Management of the company is responsible for developing financial statements, which are based on initial accounting for each accounting period and faithfully reflect financial status of the company at the end of an accounting period, as well as on the results of its activity and cash flow for the period.

Management verifies that when the report for the period, which ends on December 31, 2009, was drawn up, appropriate accounting methods were used, their application was consistent and rational, and cautious decisions were made. Management verifies that proper International Accounting principles were taken into consideration and financial reports were drawn in compliance with the principle of continuation of activity.

Management is responsible for keeping relevant accounting records, for maintaining company's assets and for preventing deception and ignominy.

Profit or loss calculation

Note	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Net turnover	9 174 127	9 463 671	13 053 607	13 465 591
Production costs of the sold production	(7 966 952)	(9 097 640)	(11 335 951)	(12 944 775)
Gross profit	1 207 175	366 031	1 717 655	520 815
Selling costs	(835 997)	(81 135)	(1 189 517)	(115 445)
General administration costs	(154 937)	(285 620)	(220 455)	(406 401)
Other income from company's economic activity	274 177	204 536	390 119	291 029
Other expenditures from company's economic activity	(123 693)	(77 349)	(175 999)	(110 058)
Profit or loss from economic activity	366 725	126 463	521 803	179 941
Net profit from participation in the capital of subsidiary and associated companies				-
Other interest income and the like income	-	20	-	28
Other interest payments and the like payments	(198 193)	(236 462)	(282 003)	(336 455)
Profit or loss before extraordinary items and taxes	168 532	(109 979)	239 799	(156 486)
Extraordinary income				
Extraordinary expenditures				
Profit or loss before taxes	168 532	(109 979)	239 799	(156 486)
Company's income tax	(5 722)	-	(8 142)	-
Company's deferred income tax		57 971	-	82 485
Other taxes	(12 145)	(10 666)	(17 281)	(15 176)
Profit or (loss)	150 665	-62 674	214 377	-89 177
Profit/ (loss) per share				
<i>lats per share / EUR per share</i>	0.39	(0.16)	0.55	(0.23)

The annex on pages 11-31 is an integral part of this financial statement

Board :

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

Balance sheet

	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Note	LVL	LVL	EUR	EUR
LONG-TERM INVESTMENTS				
Intangible investments				
Concessions, patents, licences, trademarks and the like items	25 819	34 824	36 737	49 550
Company's intangible value	-	-	-	-
Advance payments for intangible investments	-	-	-	-
TOTAL	25 819	34 824	36 737	49 550
Fixed assets				
Land, premises and buildings	2 883 155	2 956 961	4 102 360	4 207 376
Biological assets	553 296	600 488	787 269	854 417
Equipment and machinery	1 116 631	1 441 205	1 588 823	2 050 650
Other fixed assets	15 227	24 327	21 666	34 614
Unfinished constructions	635 342	84 954	904 010	120 879
Advance payments for fixed assets	29 728	-	42 299	-
TOTAL	5 233 379	5 107 935	7 446 427	7 267 937
Long-term financial investments				
Participation in the capital of related companies	526 508	346 108	749 153	492 467
Loans to the related companies	752 752	692 836	1 071 070	985 817
TOTAL	1 279 260	1 038 944	1 820 223	1 478 284
TOTAL LONG-TERM INVESTMENTS	6 538 458	6 181 703	9 303 388	8 795 771
CURRENT ASSETS				
Stocks				
Raw materials, direct materials, auxiliary materials	8 053	9 420	11 458	13 403
Biological assets	298 760	328 858	425 097	467 923
Unfinished production	1 300 105	971 483	1 849 883	1 382 296
Finished production and goods for sale	202 653	453 814	288 349	645 719
Advance payments for goods	1 422 148	966 602	2 023 534	1 375 351
TOTAL	3 231 719	2 730 177	4 598 322	3 884 692
Debtors				
Debts of buyers and customers	667 262	760 292	949 428	1 081 798
Debts of subsidiaries	42 524	30 025	60 506	42 722
Other debtors	37 469	37 535	53 314	53 407
Accrued income	30 205	30 205	42 978	42 978
Expenditures of the next periods	31 915	9 550	45 411	13 588
TOTAL	809 375	867 607	1 151 637	1 234 494
Money and its equivalents				
	16 694	478 208	23 753	680 429
TOTAL CURRENT ASSETS	4 057 788	4 075 992	5 773 712	5 799 614
TOTAL ASSETS	10 596 246	10 257 695	15 077 100	14 595 385

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of boardJānis Mierkalns
Vice-chairmanGundars Maurs
Member of boardGatis Zommers
Member of board

Balance sheet (continuation)

		31.12.2009	31.12.2008	40178	39813
	Note	LVL	LVL	EUR	EUR
OWN CAPITAL					
Share capital (equity)		387 136	387 136	550 845	550 845
Increase of price of the issue of shares		1 987	1 987	2 827	2 827
Reserves from revaluation of long-term investments		802 492	800 242	1 141 843	1 138 642
Other reserves		2 623 085	2 623 085	3 732 314	3 732 314
Retained profit from the previous year		(62 674)	-	(89 177)	-
Retained profit (loss) of the year of account		150 665	(62 674)	214 377	(89 177)
TOTAL		3 902 691	3 749 776	5 553 029	5 335 451
TOTAL OWN CAPITAL		3 902 691	3 749 776	5 553 029	5 335 451
CREDITORS					
Long-term creditors					
Deferred company's income tax		186 543	186 543	265 427	265 427
Long-term loans from credit institutions		1 407 262	1 658 057	2 002 353	2 359 203
Long-term part of financial lease liabilities		180 245	421 925	256 466	600 345
Other creditors		1 388 038	1 388 038		
Long-term part of incomes from next periods		82 129	82 129	116 859	116 859
TOTAL		3 244 217	3 736 692	2 641 105	3 341 834
Short-term creditors					
Short-term loans from credit institutions		1 775 412	1 954 435	2 526 184	2 780 910
Short-term part of financial lease		222 758	236 319	316 956	336 252
Advance payments received from buyers		328	10 108	467	14 382
Debts to suppliers and contractors		1 309 717	436 451	1 863 559	621 014
Accrued liabilities		44 955	48 022	63 965	68 329
Taxes payable		37 799	37 957	53 783	54 008
Other creditors		58 168	31 694	82 766	45 096
Incomes from the next periods short-term part		201	16 241	286	23 109
Unpaid dividends from the previous years				-	-
TOTAL		3 449 338	2 771 227	4 907 966	3 943 101
TOTAL CREDITORS		6 693 555	6 507 919	7 549 071	7 284 934
TOTAL LIABILITIES		10 596 246	10 257 695	13 102 100	12 620 385

The annex on pages 11-31 is an integral part of this financial statement

Board:

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Member of board

Gatis Zommers
Member of board

Cash flow statement

I. Cash flow from basic activity		2009	2008	2009	2008
		LVL	LVL	EUR	EUR
1. Profit (+) or loss (-) before extraordinary items and taxes:		168 532	(109 979)	239 799	(156 486)
a) wear and tear of fixed assets and intangible investments (+)		543 073	635 406	772 723	904 101
b) elimination of fixed assets and intangible investments		66 467	155 201	94 574	220 831
c) formation of accruals (except for the accruals for insecure debts)		-	13 118	-	18 665
d) profit (-) or loss (+) from fluctuations of exchange rate		-	(9 153)	-	(13 024)
e) income from the acknowledgement of financing		-	(16 241)	-	(23 109)
f) other interest income and the like income		-	(20)	-	(28)
h) interest payments and the like expenditures		198 193	236 462	282 003	336 455
2. Profit or loss before the corrections of the impact of balance		976 265	904 794	1 389 100	1 287 406
a) increase (+) or decrease (-) of debtors debt		58 232	98 857	82 857	140 661
b) increase (+) or decrease (-) of the reserves of accruals		(501 542)	(1 376 196)	(713 630)	(1 958 150)
c) increase (+) or decrease (-) of the remainder of debts payable to suppliers, contractors and other creditors		870 695	52 334	1 238 887	74 465
3. Gross cash flow from basic activity		1 403 650	(320 211)	1 997 214	(455 619)
4. Expenditures to pay interest payments		(198 193)	(236 462)	(282 003)	(336 455)
5. Expenditures to pay company's income tax and immovable property tax		(17 867)	47 305	(25 422)	67 309
6. Cash flow before extraordinary items		1 187 590	(509 368)	1 689 788	(724 765)
7. Cash flow from extraordinary items					
8. Net cash flow from basic activity		1 187 590	(509 368)	1 689 788	(724 765)
II. Cash flow from investments					
1. Purchase or dispossession of shares of subsidiary or associate companies		-	(1)	-	(1)
2. Loans given		(240 316)	(1 192)	(341 939)	(1 696)
3. Acquisition of fixed assets and intangible investments		(143 613)	(398 686)	(204 343)	(567 279)
4. Expenditures for advance payments for fixed assets and unfinished constructions		(580 116)	(39 253)	(825 431)	(55 852)
5. Income from selling fixed assets and intangible investments		-	-	-	-
6. Interest received		-	20	-	28
6. Net cash flow from investments		(964 045)	(439 112)	(1 371 712)	(624 800)
III. Cash flow from financing activities					
1. Loans received			3 015 262	-	4 290 331
2. EU financing received		-	-	-	-
3. Received investments in capital		-	-	-	-
4. Expenditures for paying back loans		(685 059)	(932 999)	(974 751)	(1 327 538)
5. Expenditures for redemption of asset that was hired		-	(668 194)	-	(950 754)
6. Paid out dividends		-	-	-	-
6. Net cash flow from financing activities		(685 059)	1 414 069	(974 751)	2 012 039
IV. The result of the exchange rate fluctuations		-	-	-	-
V. Net cash flow of the year of account increase (+), decrease (-)		(461 514)	465 589	(656 675)	662 473
VI. Money and its equivalents balance at the beginning of the year of		478 208	12 619	680 429	17 955
VII. Money and its equivalents balance at the end of the year of account		16 694	478 208	23 753	680 429

The annex on pages 11-31 is an integral part of this financial statement

Board:

Jānis Bertrāns
Chairman of boardJānis Mierkalns
Vice-chairmanGundars Maurs
Member of boardGatis Zommers
Member of board

Statement on the changes in own capital

	Share capital	Share premium	Other reserves	Reserves from revaluation of long-term investments	Retained profit/loss of the previous year	Retained profit/loss of the year of account	Total own capital
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
December 31, 2007	387 136	1 987	2 213 959		-	409 126	3 012 208
Distribution of profit of the year 2007	-	-	409 126			(409 126)	-
Revaluation reserves	-	-		800 242			800 242
Profit of the year of account,adjusted	-	-				(62 674)	(62 674)
December 31, 2008	387 136	1 987	2 623 085	800 242	-	(62 674)	3 749 776
Revaluation reserves	-	-		2 250		-	2 250
Distribution of the year 2008 profit	-	-			(62 674)	62 674	-
Calculated dividends	-	-					-
Profit of the year of account	-	-	-			150 665	150 665
December 31, 2009	387 136	1 987	2 623 085	802 492	(62 674)	150 665	3 902 691

	Share capital	Share premium	Other reserves	Reserves from revaluation of long-term investments	Retained profit/loss of the previous year	Retained profit/loss of the year of account	Total own capital
	EUR	EUR	EUR		EUR	EUR	EUR
December 31, 2007	550 845	2 827	3 150 180	-	-	582 134	4 285 986
Distribution of profit of the year 2007	-	-	-	-	-	-	-
Revaluation reserves	-	-	582 134	-	-	(582 134)	-
Profit of the year of account,adjusted	-	-	-	1 138 642	-	-	1 138 642
	-	-	-	-	-	(89 177)	(89 177)
December 31, 2008	550 845	2 827	3 732 314	1 138 642	-	(89 177)	5 335 451
Revaluation reserves	-	-	-	3 201	-	-	3 201
Distribution of the year 2008 profit	-	-	-	-	(89 177)	89 177	-
Calculated dividends	-	-	-	-	-	-	-
Profit of the year of account	-	-	-	-	-	214 377	214 377
December 31, 2009	550 845	2 827	3 732 314	1 141 843	(89 177)	214 377	5 553 029

Board:

Jānis Bertrāns
Chairman of board

Jānis Mierkalns
Vice-chairman

Gundars Maurs
Member of board

Gatis Zommers
Member of board

2. Important accounting principles

In preparation of the holding company's financial statement, there were used the following accounting principles:

Principles of preparing the financial statement

The holding company's financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS). The financial statement was prepared in compliance with the Principle of Historical Cost.

Currency and items used in the preparation of the financial statement

In financial statements as a monetary unit is used Latvian lat (Ls)- the monetary unit of the Republic of Latvia.

Changes in the accounting principles

In 2006, the Holding accepted the IFRS which were amended in 2004 and the application of which is mandatory for the financial years starting from January 1, 2005 or later. To apply these standards there were not made any significant changes in the Holding's financial principles. Consolidation was carried out in 2006 for the first time as in 2005 the results of subsidiary companies did not significantly impact the parent company's showings.

Application of the International Financial Reporting Standards

- SGS Nr.1 Drawing up of financial statements
- SGS Nr.2 Reserves
- SGS Nr.7 Cash flow statements
- SGS Nr.8 Accounting policies, changes in calculations and errors
- SGS Nr.10 Events after the balance sheet date
- SGS Nr.14 Showing information through segments
- SGS Nr.16 Capital assets
- SGS Nr.18 Incomes
- SGS Nr.19 Employee allowances
- SGS Nr.21 Impact of foreign currency fluctuations
- SGS Nr.23 Costs of loans
- SGS Nr.24 Disclosure of information about associated parties
- SGS Nr.27 Consolidated and separate financial statements
- SGS Nr.32 Financial instruments: disclosure and showing
- SGS Nr.33 Profit per share
- SGS Nr.36 Decrease of the value of assets
- SGS Nr.37 Reserves, possible liabilities and possible assets
- SGS Nr.38 Intangible assets
- SGS Nr.39 Financial instruments: acknowledgement and estimation

3. Important accounting principles (continuation)

Use of calculations (continuation)

When preparing financial statements, the management have to base on certain calculations and assumptions, which influence the remainders of the balance and the profit or loss posts shown in particular statements as well as the amount of possible liabilities. Future events may have an impact on assumptions which were taken into consideration when separate calculations were made. Any influence of calculations is shown in the financial statement at the moment of their determination.

Transactions in foreign currencies

The Holding's accountancy is kept in Latvian lats (Ls) except for the 000 Saldus and 000 Saldus Łes where are used RUB Russian roubles.

All transactions in foreign currencies have been re-estimated in Latvian lats in accordance with the official exchange rate, established by the Bank of Latvia on the day of corresponding transaction. Assets and liabilities which are shown in foreign currencies are re-estimated in Latvian lats in accordance with the exchange rate, established by the Bank of Latvia on the last day of accounting year. Differences arising from transactions in foreign currencies or from showing assets and liabilities in foreign currencies which differ from the initial exchange rates are shown in the profit or loss calculations in their net value. Re-estimation of the capital of the ooo Saldus and ooo Saldus Ļes into the currency used in the Holding is done by applying the exchange rate that is valid on the day of preparing the balance sheet and regarding to profit or loss posts- by applying the exchange rate in force at the end of the year of account. Corrections due to re-estimation are shown in a separate post of own capital.

	31.12.2009.	31.12.2008.
RUB/ LVL	0.0164	0.0171
EUR/ LVL	0,702804	0.702804

Intangible investments

Intangible investments are counted in their initial value which is being amortized during their effective time of use and is done by applying a linear method. If there are any events or the change of circumstances that identify that the balance value of intangible investments could be unrecoverable, the corresponding value of intangible investments is re-evaluated in order to determine the decrease of their value. Loss which occurs due to the decrease of value is acknowledged if the balance value of intangible investments exceeds the recoverable value.

The intangible investments include the licences of software used in the Holding, intangible value and other intangible investments which are related to the activity of parent and subsidiary companies of the Holding.

The licences of software which are used in the Holding are accounted in their purchase value by deducting their wear and tear.

Wear and tear is calculated for the whole period of their effective time by applying a linear method.

Expenditures related to the maintenance of the software are included as expenditures in the profit/loss statement.

2. Important accounting principles (continuation)

Capital assets

Capital assets are accounted in their initial value except for their wear and tear and the decrease of their value. For land the wear and tear is not calculated

Wear and tear is calculated for the time of their effective use, by applying a linear method:

Buildings, constructions	- 20 years (since 01.01.2008.)
Equipment and machinery	- 10 years
Forest equipment	- 5 years (since 01.01.2007.)
Timber processing lines	- 5 years (since 01.01.2007.)
Other capital assets	- 5 years
Computing and data gathering devices, software	- 5 years

Wear and tear of capital assets is calculated starting from the following month when they are put into operation or involved in economic activity. For each part of capital assets if their costs are significant to the initial cost of the corresponding capital asset wear and tear is calculated separately. The routine repairs of capital assets are included in the profit or loss calculations in the period when they occur.

The accounting value of capital assets is not longer estimated if they are alienated or if in the future there is not expected any outcome from their use. Profit, which arises due to the said circumstances (which is calculated as difference between net income and the balance of capital assets), must be included in the profit or loss calculation and in the period when it happened.

If there are events or circumstances which indicate that the balance value of capital assets could not be recovered, the value of corresponding capital assets is re-evaluated in order to determine the decrease of their value. If there are signs that the value can not be recovered and if the balance value of assets exceeds the recoverable amount, the asset is written off to its recoverable amount.

Unfinished construction shows the costs of capital assets and unfinished constructions and it is accounted in its initial value. The initial costs include construction costs and other direct expenditures. Wear and tear for unfinished constructions is not calculated until the appropriate assets are finished and put into operation.

Decrease of the value of assets

At the end of each year the Holding audits if there are no signs of the decrease of the value of assets. If there are such signs or if the Holding has to carry out the annual audit of the decrease of the value of assets, the Holding establishes the recoverable amount for each asset. The recoverable amount is the biggest amount of selling value from which is subtracted expenditures related to the selling value and use-values. In order to determine the decrease of value, assets are grouped in the lowest possible level for which it is possible to separately determine cash flows (cash flow generating assets). If the balance value of assets is bigger than its recoverable amount, the decrease of the value of asset is acknowledged and the assets are written off to its recoverable amount. Losses from the decrease of value are shown in profit or loss calculation as expenditures from other economic activity.

Loan costs

Loan costs are shown in profit or loss calculation at the time when they occur in accordance with the Bookkeeping Standards Principle No 23.

2. Important accounting principles (continuation)

Lease

Financial lease transactions when the Holding is handed over all risks and compensation, arising from proprietorship towards the leasehold, in the balance sheet are acknowledged as capital assets the amount which at the beginning of lease corresponds with the purchase value of the leasehold. Financial lease payments are divided between financial expenditures and decrease of liabilities so that in each period they guarantee constant interest rate with regard to remainder of liabilities. Financial expenditures are included in profit or loss calculation as interest expenditures.

Lease of capital assets when practically all risks arising from proprietorship and compensation receives lessor is classified as operative lease. Lease payments then are accounted as expenditures during the whole period of lease and are attributed to the profit or loss calculation in the whole period of lease by using a linear method.

Reserves

Unfinished products

Reserves are accounted in their lowest cost value and net selling value. Cost is calculated by applying the FIFO method- first in, first out. Net selling value is the calculated selling price which is normally used in business by subtracting the expenditures needed to finish and sell products.

Raw materials are accounted in their purchase costs.

Finished and unfinished products are accounted in their direct costs (raw materials and labour) by adding indirect expenditures needed for their production (salaries, electricity, wear and tear and other related costs which would be used in usual production volumes).

Finished products are accounted in their lowest cost or net selling value. Net selling value is the calculated selling price in normal business activity by subtracting expenditures which will be needed to finish and sell the products.

The company regularly estimates if the value of reserves has not decreased due to aging or damage. Corresponding loss is included in the profit or loss calculation as production costs of sold products. When damaged products are physically destroyed, the value of reserves and the value of appropriate reserves are written off.

Debts of buyers and customers

Debts of buyers and customers in the balance sheet are shown according to their initial amount except for reserves for insecure debts. Reserves for insecure debts are calculated when it is unlikely that the whole amount of debt could be recovered. Debts are written off when the recovery of it is believed impossible.

Money and its equivalents

Money and its equivalents is money in the bank and cash register as well as other short-term investments with high liquidity and the initial term up to three months or less.

Share capital

Common shares are classified as own capital. All shares are registered shares and in non-material form.

Profit per share

Profit per share is calculated in the following way: profit of the year of account after taxes is divided with weighted-average number of shares in circulation in the period of account.

1. Important accounting principles – Income recognition (continuation)

Credits and loans

Credits and loans initially are shown in their initial value, which is calculated by subtracting or adding to the real value of credit or loan expenditures related to the receiving or granting the loan.

Further loans will be shown in their depreciation value.

Profit or loss arisen due to depreciation is shown in the calculation of profit or loss as interest incomes and expenditures.

Accruals

Accruals are acknowledged if the Holding has an obligation (legal or arising from practise) caused by a past event or if there is a probability that in order to meet the liabilities the Holding will have to use its funds and when it is possible to plausibly enough estimate the amounts of these liabilities. If the Holding anticipates that expenditures needed to make accruals will be fully or partly paid back, refund of these expenditures is acknowledged as a separate asset only when it is practically clear that these expenditures will be refunded. Expenditures related to accruals in the profit or loss calculation are shown, except for the sums which will be needed to reimburse expenditures.

Accruals and deferred liabilities

Accruals and deferred liabilities are accounted so that incomes and expenditures could be acknowledged at the time of rising.

Income recognition

Incomes are recognised in proportion to assurance that the Holding shall gain profit and in the amount that it will be possible to determine it. With income recognition the following conditions are taken into consideration:

Incomes from service rendering mainly include transport services related to timber processing.

Incomes from services are recognized and they correspond with the volume of service. Incomes from services are recognized in the period when they were rendered.

If it is not possible to reasonably estimate the outcome of deal, income is recognized only in the amount in which recognized expenditures could be recovered.

Sale of goods

Incomes are recognized when the Holding has handed over to a buyer all risks and compensations related to the proprietorship and goods, i.e. when the Holding has delivered goods to a buyer, and the buyer has accepted the goods in compliance with the concluded agreement and when there is good enough guarantee about the receiving of debtors' debts.

Interest

Incomes are recognized in the period when they arise and are included in the profit and loss calculation.

Dividends

Incomes are recognized when shareholders have rights to receive them.

Income from lease

Income from lease (investments in properties) is accounted for the lease agreements in force and for the whole period of lease.

2. Important accounting principles (continuation)

Taxes

Company income tax

The income tax of parent and subsidiary companies of the Holding is calculated by applying the 15% company income tax rate to the income earned in the corresponding period of taxation established by the legislative acts of the republic of Latvia.

Deferred company income tax

Deferred company income tax, which has arisen from short-term differences by including particular posts in tax declaration and in this financial statement, is calculated by applying the Liability Tax Allocation Method. The assets and liabilities of the deferred company income tax are established on the basis of tax rates which are to be applied when disappear short-term differences. Main short-term differences arise from different wear and tear rates applied by accounting and taxation needs as well as from particular accruals and tax losses which have been transferred on to the following five years. The assets of deferred company income tax in the financial statement are shown only in the case if their recoverability could be plausibly foreseen.

Possible liabilities and assets

In this financial statement the possible liabilities are not acknowledged. As liabilities they are acknowledged only when the possibility that funds will be spent becomes pretty plausible. Possible assets in this financial statement are not acknowledged, but they are shown only when plausibility that economic gains related to a transaction will reach the Holding is pretty grounded.

Allowances

Parent and subsidiary companies of the Holding pay social insurance payments, health, pension and unemployment payments according to the state established rates which are in force in the year of account and on the basis of gross salary. Parent company makes payments into private pension plans as well as makes health insurance payments. Parent company does not have to follow additional legal or other liabilities or to make additional payments if the state funded pension schemes or private pension plans can not meet their liabilities towards employees. Social insurance and pension plan payments as well as health insurance payments are included in the expenditures in the same period when the according payment was made. Pension plan payments and cash flow are similar, and the employer does not account assets or liabilities by accruals method.

Associated persons

Associated persons are Holding's parent company's subsidiary companies and shareholders who can significantly influence the activity of the Holding's parent company, the members of council and board, their close relatives and companies in which the said persons have significant impact or control.

Events after the end of the year of account

After the year of account, in the financial statement are shown the events which give additional information about the Holding's financial situation on the date of drawing up the balance sheet (correcting events). If the events after the end of the year of account are not correcting, they are shown in the notes of the annex to the financial statement only if they are significant.

3. Segments of the Holding activities

	logging		timber processing		Other and undistributable		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Net turnover	4 822 201	6 882 488	4 053 237	2 272 647	298 689	308 536	9 174 127	9 463 671
Production costs of sold products	(3 879 157)	(6 486 468)	(3 620 225)	(2 322 731)	(467 570)	(288 441)	(7 966 952)	(9 097 640)
Selling costs	(806 113)	-	(29 561)	(44 262)	(323)	(36 873)	(835 997)	(81 135)
General administration costs	(6 478)	(129 415)	(1 928)	(63 705)	(146 531)	(92 500)	(154 937)	(285 620)
Other incomes/expenditures from economic activity	68 309	115 576	63 424	-	18 751	11 611	150 484	127 187
Segment profit	198 762	382 181	464 947	(158 051)	(296 984)	(97 667)	366 725	126 463
Financial expenditures, net	(75 589)	(166 679)	(2 667)	(59 081)	(119 937)	(10 682)	(198 193)	(236 442)
Company income tax (undistributable)						57 971	-	57 971
Other taxes	(611)	(8 187)	(3 102)	(1 954)	(14 154)	(525)	(17 867)	(10 666)
Net result	122 562	207 315	459 178	(219 086)	(431 075)	(50 903)	150 665	(62 674)
Segment assets	5 290 147	5 529 562	2 539 271	2 102 372	2 766 828	2 625 761	10 596 246	10 257 695
Segment liabilities	3 703 103	4 478 376	3 703 103	1 576 779	3 190 040	4 202 540	10 596 246	10 257 695

	logging		timber processing		Other		Total	
	2 009	2 008	2 009	2 008	2 009	2 008	2 009	2 008
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Net turnover	6 861 374	9 792 898	5 767 237	3 233 685	424 996	439 007	13 053 607	13 465 591
Production costs of sold products	(5 519 543)	(9 229 412)	(5 151 116)	(3 304 948)	(665 292)	(410 415)	(11 335 951)	(12 944 775)
Selling costs	(1 146 995)	-	(42 062)	(62 979)	(460)	(52 466)	(1 189 517)	(115 445)
General administration costs	(9 217)	(184 141)	(2 743)	(90 644)	(208 495)	(131 616)	(220 455)	(406 401)
Other incomes/expenditures from economic activity	97 195	164 450	90 244	-	26 680	16 521	214 119	180 971
Segment profit	282 813	543 795	661 560	(224 886)	(422 570)	(138 968)	521 803	179 941
Financial expenditures, net	(107 553)	(237 163)	(3 795)	(84 065)	(170 655)	(15 199)	(282 003)	(336 427)
Company income tax	-	-	-	-	-	82 485	-	82 485
Other taxes	(869)	(11 649)	(4 414)	(2 780)	(20 139)	(747)	(25 422)	(15 176)
Net result	174 390	294 983	653 351	(311 731)	(613 364)	(72 428)	214 377	(89 177)
Segment assets	7 527 201	7 867 858	3 613 057	2 991 406	3 936 842	3 736 121	15 077 100	14 595 385
Segment liabilities	5 269 041	6 372 155	5 269 041	2 243 554	4 539 018	5 979 676	15 077 100	14 595 385

3. Segments of the Holding activities (continuation)

The Holding shows information through particular segments.

The above table shows the Holding's profit or loss posts and the distribution of assets and liabilities through segments:

The management of the Holding believe that it is not useful to prepare cash flow statements through different segments.

Segment descriptions:

Logging

Income in this segment mainly arises from selling of round timber, obtained in logging, and timber transportation in the territory of Latvia and from the income from logging services.

Timber processing

Income in this segment mainly arises from selling of sawn timber which was obtained in the production process and from rendering of different services which are related to timber processing.

Other

Collected lease payments for the use of the company's real estate and other income which is not related to the company's economic activity.

4. Net turnover through geographical segments

Since the economic activity of the Holding is mainly performed in Latvia and all significant assets are situated in Latvia, the management believe that it is not useful to prepare a statement through geographical segments as the amount of income from different geographical segments does not exceed 10 % of total income.

	2009 LVL	2008 LVL	2009 EUR	2008 EUR
Income from sales, int. Al.	8 820 841	9 266 208	12 550 926	12 970 447
Latvia	8 819 975	9 036 635	12 549 694	12 857 973
the EU countries	866	150 526	1 232	
Other countries		79 047	0	112 474
Income from rendering of services, int. Al.	353 286	197 463	502 681	247 668
Latvia	353 286	174 062	502 681	247 668
the EU countries		23 401		
	9 174 127	9 463 671	13 053 607	13 218 115

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